The Wheat Board Fallacy

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"The Railway Muddle and the Way Out."

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INTRODUCTION

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This little Booklet contains a series of three closely reasoned articles dealing with the problem of the Wheat Board.

The Author, Mr. Deachman, is a Radical in politics, who has supported the Farmer movement throughout the West and has spoken on Farmer platforms from one end of the country to the other.

His opposition to the Wheat Board does not carry with it any opposition to the Farmers' movement, but simply represents an honest opinion that a Wheat Board is unwise as a political measure, impossible from a practical standpoint and of no value as a means of economic relief to the farmer.

The Publishers.

THE WHEAT BOARD FALLACY

ARTICLE I.

THE leaders of the farmers' movement in Western Canada, and a great many intelligent farmers, have been agitating for the establishment of a wheat board. At the head of this movement is the Canadian Council of Agriculture and one of its sponsors is H. W. Wood, the president of the Canadian Council of Agriculture and President of the United Farmers of Alberta.

Briefly, Mr. Wood's argument is based upon these figures: The annual wheat crop of the world is approximately 2,700,000,000 bushels. Of this vast amount 2,200,000,000 comes into the market in three months of the year, July, August and September, for the bulk of the wheat is grown in the northern hemisphere. At the end of September, therefore, the world has more wheat on its hands than it has at any other month of the year. The total normally approximates 1,525,000,000 bushels at that time or enough for over six months' supply. These figures are fairly accurate. Let us accept them and base our argument upon them.

The Claims of the Believers

Now it is claimed by the advocates of a wheat board, that all this vast volume of wheat, coming on the world's market at once, tends to de-

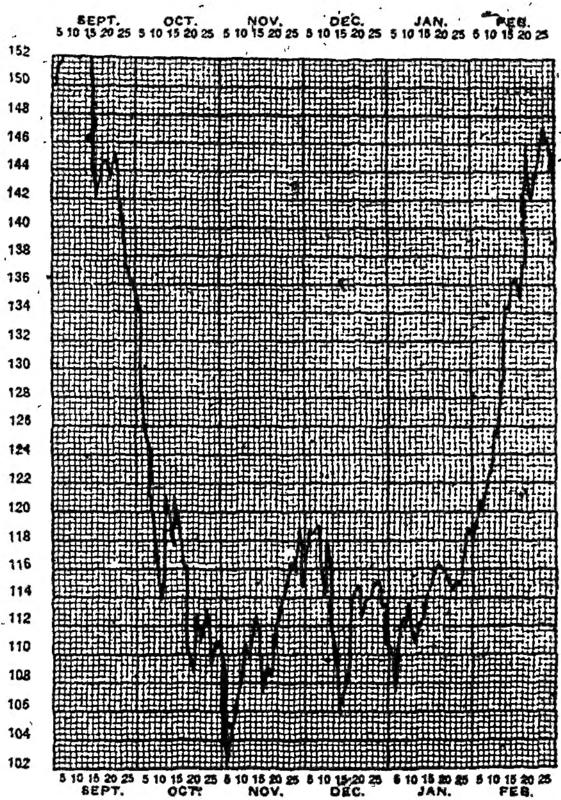
press the price of wheat, and that in consequence the western farmer, forced by the pressure of his creditors, to market his produce in October, finds himself in the world's wheat market at a time when prices are depressed, and is in consequence placed at a tremendous disadvantage in his efforts to get a fair price for his product. Mr. Wood sums up the situation in this way: "Why do we want a wheat board? We want a wheat board simply for the purpose of stabilizing the Canadian wheat trade by regulating and controling the flow of wheat and negotiating the sale of it, feeding it to the market as the demand requires, instead of forcing it into the market regardless of demand. We want to take down the sign that Canada has the cheapest wheat in the world, and put up a sign that on and after September 1, 1922, Canada will be ready to negotiate sales of perfectly good hard spring wheat to all buyers at a fair and reasonable price."

Now this statement sums up the whole argument in regard to the wheat board. It is put in different ways by different speakers, but the sum and substance of the arguments are based upon the figures given by Mr. Wood, and in illustration he quotes what happened to the wheat market in the season of 1921-22.

The Base of the Argument

A diagram showing the course of the wheat market for 1921-22 is re-

THE WHEAT BOARD FALLACY



This is the chart used by Mr. Wood in his argument. It represents an abnormal year. There is probably no parallel for it in the history of the grain exchanges.

produced herewith. This chart is used by the advocates of the wheat board, but it does not represent a normal condition. It shows that somewhere around the middle of September wheat stood at $1.64. It plunged downward to approximately $1.02 on the 5th of November. It moved around with varying fluctuations to the 5th of February, when it had reached $1.18. It then moved rapidly upward to $1.47 around the 25th of February and the fluctuations from that time, not so violent in character, have ranged from four or five cents above that figure to ten or eleven cents below it. The inference expected to be drawn from this diagram is that this is a regularly recurring event, that prices drop while the wheat is in the farmers' hands, that it passes out of the farmers' hands into the hands of the speculators, that it then moves upward in price and that the farmer is a heavy loser by these speculative activities while the speculators wax extremely fat and prosperous. All this sounds very well, but fortunately it is not true.

Now let me trace the actual course of the wheat market in Canada and the United States and if I succeed in proving that this diagram is wrong and that this is not the customary course of the wheat market, and if I show beyond the possibility of doubt that over a period of years it would not pay the farmer to carry his

wheat from the months immediately following the harvest to any other period of the year, then I think I have succeeded in showing that for some reason or other Mr. Wood's theory breaks down when it strikes facts and that the wheat market refuses to act as the wheat board advocates say it should. Now remember there may be other arguments in favor of a wheat board, and there no doubt are. There are many apparently reasonable arguments in support of a wheat board or any other system of marketing, but the supporters of the wheat board have chosen to make their stand upon the ground that the farmer is a sufferer because he is compelled to market his wheat in the months immediately following the harvest and I want to consider, for a moment, the facts which may be presented on the other side of the question. I leave you to draw your own conclusions.

The Drift of Prices

In the first case, let us consider the Chicago wheat market. I take this because it is one of the oldest markets for wheat on the North American continent. Also it is generally claimed that the speculative element is very large in Chicago, and we frequently hear of "corners" and "drives" and all the other speculative jargon from that particular market. Of course our markets follow

Chicago pretty closely. I have before me the record of the Chicago market from 1859 to 1921 inclusive. That represents 63 years in the marketing of wheat. Mr. Wood points out in his chart that the low point was reached in November, and it is rather a peculiar instance that in the Chicago market the low point of the year never fell in November from 1873 to 1909 and only four years between that time and 1922, so that in 50 years the low mark was reached only four times in the month of November and only five times in the life of the Chicago board of trade. During that 63 years high points were reached in September, October, November and December, 19 times. In January, February, March and April 21 times; in May, June, July and August, 22 times. There is not a very marked tendency toward any special month, is there?

Extremes of the Market

But these high points and low points are scarcely a fair test. Wheat may go up for a few days owing to a crop scare, or it may go down, on a report that abnormal crops are developing. These figures are relatively unimportant, but they do show that the speculator does not control the market and that the top of the market may come at any time of the year. The idea that prices are forced down until the crop is out of the hands of the farmer and then forced

up again is a very obvious absurdity. Again we are more apt to have extremes of high and low, or rather a wider variation in the market during the growing months of May, June, July and August, than in any other period of the year. Over a period of 20 years in Chicago the price has fluctuated from 10 to 12 cents in the months of January, February, March and April. In May, June, July and August the fluctuations run from 15 to 17 cents in the course of a month. In September, October, November and December, when the crop production is pretty definitely known the fluctuation then varies from 10 to 12 cents. This is only natural, the change is not caused by speculators but by conditions. You may touch a high point by holding wheat to May and you may also touch a low point. No man should count much on these fluctuations, and the real test comes when you consider the average over a period of years.

Twenty Years of Prices

Now I want to give you first the average prices of spot wheat in Chicago over a twenty-year period from 1894 to 1913. This represents the average price of the months given during a period of twenty years:

	Min.	Max.	Mean
January	79	80	84½
February	80	91	85½
March	80	90	85
April	74	93	83½

May	82	99	90½
June	80	97	88½
July	77	93	85
August	76	93	84½
September	78	91	84½
October	84	95	89½
November	79	89	84
December	80	92	86

Now let us sum up these figures. Over this period of twenty years the September, October and November average price was 86c. The average January, February, March and April price was 84c and the average May, June, July and August price was 87c.

"Count the Cost of Carrying

Take into consideration the carrying charges on wheat from December to May. It represents at least 1½c a month and you will see that during this entire period there was no chance whatever for the man, who carried over wheat, to make money unless he sold it on the very top of the market. It was impossible for him to do it on the average price of the month. Now it would appear, from this, that under normal conditions, so far as that market is concerned, the farmer stood to gain nothing by carrying his crop. But what about the years that followed. These were war years. If we had another four years war, and it was the same kind of war through which we have just passed; if Russia was shut off from the world's wheat market, and if German submarines

prevented the transportation of wheat from Australia and the Argentine, I think we should probably have very high prices for wheat and that we would have them in spite of the wheat board, and that we would be more apt to have a wheat board put on then to prevent the price of wheat from going too high rather than one to give the farmer a better price for his wheat and so I do not think that we can take into serious consideration figures taken from war years. I am interested in the price of wheat under normal conditions of peace and pray that we may long continue to consider not war prices, but peace prices.

Minneapolis Follows Chicago

Now let us leave the Chicago market for a moment and let us come to another market; for I am interested in tracing this not as a local question, but as a condition existing upon the North American continent. I have here a table compiled, not by myself, but by the United States department of agriculture.

You will note here that the average price in the month of October from 1895 to 1913 on the Minneapolis market, was 95.3c. The average price in April, over the same period, was 98.3c, a difference of 3c. If money is worth 8 per cent. to the farmer, that difference of 3c represents the difference upon the average prices of wheat frim October to April, then it

Range of Wholesale Prices of No. 1 Northern Wheat at Minneapolis in October and April of each year from 1895 to 1914.

Compiled from Commercial Papers.

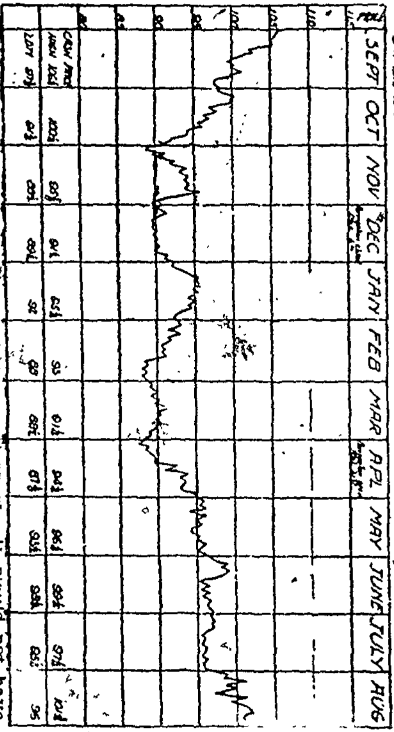
Date.		High	Low	Average	Date.		High	Low	Average
Oct.	1895*	55.00	52.50	53.75	Apr.	1896*	62.62	58.75	60.68
"	1896*	75.00	63.50	69.25	"	1897*	77.62	65.25	71.44
"	1897*	92.50	85.00	88.75	"	1898*	116.75	95.25	106.00
"	1898*	67.00	56.00	61.50	"	1899*	72.00	66.00	70.00
"	1899*	69.50	64.75	67.12	"	1900	66.12	64.50	65.31
"	1900	80.25	73.88	77.06	"	1901	74.50	70.25	72.38
"	1901	68.88	66.00	67.44	"	1902	77.38	70.62	74.00
"	1902	73.88	68.00	70.94	"	1903	77.38	74.88	76.13
"	1903	86.00	78.25	82.12	"	1904	98.75	90.38	94.56
"	1904	122.00	111.62	116.81	"	1905	108.12	91.62	99.87
"	1905	87.12	78.38	82.75	"	1906	81.12	76.62	78.87
"	1906	77.62	74.50	76.06	"	1907	86.12	79.38	82.75
"	1907	119.75	103.25	111.50	"	1908	108.00	98.75	103.38
"	1908	105.00	102.12	103.56	"	1909	129.25	118.38	123.82
"	1909	106.62	99.25	102.94	"	1910	116.50	106.50	111.50
"	1910	112.50	102.00	107.25	"	1911	101.00	91.50	96.25
"	1911	112.38	105.62	109.00	"	1912	116.75	105.25	111.00
"	1912	92.50	86.00	89.25	"	1913	91.75	85.75	88.75
"	1913	86.62	80.75	83.68	"	1914	94.88	88.38	91.63
				1620.73					1678.32

* No. 2 northern.

These figures are from the U.S. Department of Agriculture. Divide the totals given by the number of years. It shows an average price for October wheat for 19 years of 85.3c and for April wheat of 88.3c. It would, on the average, therefore pay the farmer to sell in October, when we take carrying charges into account.

covers interest, but it allows nothing for the other carrying charges. It leaves the farmer, when storage, shrinkage, insurance and other losses are taken into consideration, a net loss and not a gain for carrying his wheat from October to April, then it pretty full refutation, is it not, of the claim made by Mr. Wood that the price of wheat goes down in the fall, when the farmer is putting his grain on the market, and goes up in the spring, when the farmer has none to sell.

Chart No. 3



Crop year 1910-11. Here is a more normal chart. It would not have paid a farmer to carry over wheat in this crop year.

ARTICLE II.

HAVING dealt with the American markets, let us now turn to the Canadian markets. In this I want to go into more detail for, though the American and Canadian markets follow each other closely and although the figures given for Chicago and Minneapolis may be taken as representative of the figures prevailing on the Winnipeg exchange, yet a more detailed analysis of the Canadian figures will be of interest. It makes no difference how far back we go. The same conditions will prevail over a period of years. The entire facts establish beyond a question of a doubt that though in some years the farmer might make money by holding his wheat, he could not fail to be anything else but a loser if he made a regular practice of holding his wheat.

The Charts and Canadian Prices

Now in this I want to submit a couple of charts produced before the Committee of Agriculture at Ottawa, and prepared from the official figures showing the price of grain over certain crop years in the period from 1908-9 to 1913-14, and to state the facts in other years where charts are not shown. Briefly, the facts are: The opening price in 1909 was around \$1.00, the top price in June went over \$1.35. In August it was back around \$1.00. That was a year in which the farmer, if he had held his wheat,

would have made out of it. In the year 1909-10, at no period would the holding of wheat have paid for the carrying charges except for a brief period in the month of July. There was a crop scare in that month and prices went up nearly 17 cents in the month of July. No man in the world could have anticipated that condition, and if the farmer had sold in June instead of July he would have accepted less than 90 cents for wheat, which would have reached the market around 95 to 99 in October of the previous year. Some risk and not much to gain at that. In 1910-11 there was nothing wnatever to gain from the carrying of wheat. It stood at slightly over $1.00 in October and it did not touch $1.00 again until the following year, in August, when it reached $1.01¾. In 1912-13 similar conditions existed. In October and November the high point was from $1.00 to $1.02. It reached an extreme top of $1.09 in June, but even if you could hit that top, when carrying charges are taken into consideration, the farmer has nothing to gain. In 1913-14 until the last days of July, when the European situation became alarming and the price of wheat went up, there was not enough increase to pay carrying charges.

The Farmer Loses by Holding Wheat

Now, to sum up these variations for the period named, from the crop year 1908-9 to 1913-14, it would show that taking the average price of wheat

from September to November during this period of years, according to figures compiled from the official prices on the Grain Exchange by Turner, Love & Grant, chartered accountants of Winnipeg, that the results would be according to the following schedule:

Holding and selling in	Ave. Loss	Ave. Gain
December	4.2	—
January	3.3	—
February	3.3	—
March	3.2	—
April	1.8	—
May	1.7	—
June	1.6	—
July	0.5	—

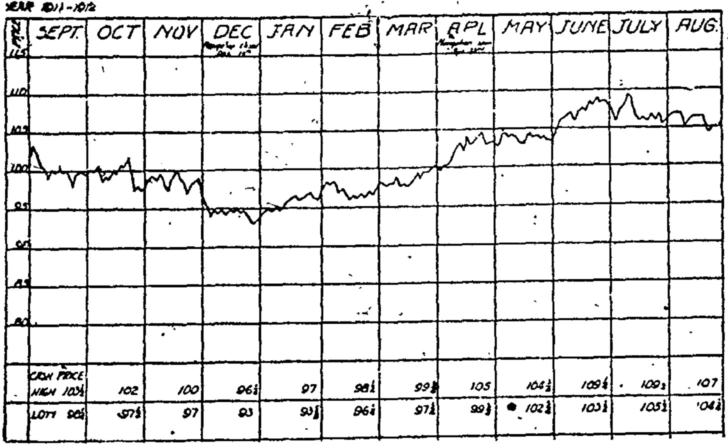
There were fifteen months only out of the 54 months covered when a profit could have been made by the farmer who held his wheat after November in each year, but on the average the farmer would have been a loser according to the figures herewith. Can the farmer afford to gamble with a chance of winning 15 times out of 54?

Now this gives the history of price movements in the three leading exchanges in America, over a long period of years. Beyond the possibility of controversy or doubt or cavil there is nothing to be gained and a very generous chance of loss in the carrying of wheat from the fall months to the following summer.

Prove It If Possible

Surely now we have at least left

Chart No. 4



1911-12. Another normal year. The difference between fall prices and summer prices would not be enough to pay carrying charges.

upon the advocates of the wheat board the onus of proving their claims by something entirely different from anything they have heretofore submitted but at the same time it seems to me it is only right that I should endeavor to point out what the forces are which equalize prices over the year which tend to prevent violent fluctuations, which after all are not in the interest of the producer or the consumer of wheat. These equalizing forces are, in my opinion, the forces of speculation. Now I want to distinguish in this between speculation and gambling. One of our local grain men, Mr. McHugh, defines speculation as the "taking of a risk that must be taken by men who are competent to take it." Gambling, on the other hand, he considers as "the making of a risk for the purpose of taking it, or risking for gain without any knowledge of the circumstances of the case." Now, it is obvious to any man that wheat must be carried from the months of heavy production to the months in which there is practically no wheat coming on the market. The carrying of this enormous amount of wheat is done at the present time by men who are competent to take the risk. Remember, it must be done. The risk would have to be taken by somebody or some other organization. The only point that the advocates of the wheat board attempt to make is that this risk should be carried by the wheat board, which really represents the grain growers of Western Canada

and not by the people who are carrying it at the present time. Let us trace what happens under present conditions. Supposing, during the early summer, the weather were to turn very dry in Western Canada. That would lead to an increase of prices on the Winnipeg grain exchange, that again would be reflected in a high price in Liverpool and the Argentine Republic. Now all wheat is not sown at the same time. Some wheat is harvested every month in the year and some wheat is sown every month in the year. The failure of Western Canada would lead to an increase in price and an increased sowing of wheat in other countries, and this again would tend to equalize prices, thereby maintaining a normal supply and a normal price in the world's market. Speculation is a regulative force. **It is not the buying of wheat by the speculator which forces up the price, but it is the shortage of wheat which induces the speculator to buy.** He is only anticipating the natural course of events. He does not create them. He is not forcing the conditions. In a foot-note to a definition of speculation, Webster says: "When confined within moderate limits, it is the agent for equalizing supply and demand and rendering the fluctuations less sudden and abrupt than they would otherwise be." Remember, too, that it is not alone the class of professional speculators who take part in movements of this kind. Do you not recall the days of the

sugar shortage in Canada, how every housewife tried to hoard a sack or two. Precisely the same thing occurs in connection with any other product. All these little accumulations, added to the other accumulations make the total of the world's reserve and serve to act as a regulating force on prices. It is speculation, if you like, but it is necessary and salutary in its influence.

THE WHEAT BOARD FALLACY

ARTICLE III.

NOW it is true at one time we had a wheat board and this wheat board operated on a rising market in a year when it was relatively easy to get high prices for wheat. Under the circumstances success attended its efforts, but it would be foolish to judge from that success what might happen in the future. Any idea that a wheat board appointed now would produce the same results in the present condition of the market is the wildest gamble in which there is no measure of certainty whatever. Note especially that the advocates of the wheat board do not suggest it as a permanent measure. In his evidence in Winnipeg before the Committee on Agriculture and Colonization, Mr. Rice-Jones said: "I have been out to several meetings in the last month and have met from 1,500 to 1,700 farmers and this question of the wheat board was discussed at every meeting and though no resolution was passed, the statement was made that they did not favor the wheat board as a permanent proposition. And I have not found the least indication in the country anywhere that there is any desire for it as a permanent proposition." If it is good, why not make it permanent? We have built up the system of marketing which exists today. Why tear it down merely to try something else which you don't intend to keep. Where have I heard the

story of trying it out for a time? Ah! I remember now. That was the argument put up by the advocates of the tariff when it was first introduced. That is the old infant industry story, worked over again, but this time it is sponsored by the vice-president of the Grain Growers. I do not believe that the grain growers of Western Canada, who have fought the battles of economic freedom for two decades in this country want to yield for a second their right to remain as the opponents of special privilege and the advocates of equal opportunities to all for the doubtful advantage of submitting the selling of their entire wheat crop to a board of three or four men, appointed by a government, which, to say the least, has never been too strongly devoted to the interests of the Canadian farmer.

Can the Farmer Take the Chance?

The Canadian farmer is a democrat. He believes in dealing in the open. The farmer selling his wheat to a wheat board can never tell what he will get. He might anticipate a good price, but the wheat board might blunder—and every speculator in wheat has blundered, and blundered tremendously at times—if this happened with the Canadian farmer, the disappointment would be very great indeed. The uncertainty in itself would be a deterrent factor in his work throughout the year. Mr. Riddell, who was the assistant manager of the Canadian wheat board during its operation, was asked what would

have happened if their prognostications had been wrong. Mr. Riddell said: **"I would say this, if we had guessed wrong and the farmers ever got to know it, we might have been eternally damned."** In other words, according to Mr. Riddell, the wheat board might have guessed wrong and the farmers never got to know it. That is a fair inference, I supose, from his words. It means then, if we have a wheat board, that we are to trust it blindly, take what it gives us and hope for the best.

The Handling of Wheat

And now there is one other matter on which I want to touch and that has to do with our present system of handling wheat. I am going to venture the assertion at this point that the cost of handling our wheat crop in Western Canada is less than the cost of handling any other crop produced in the northern hemisphere. That is to say, that the spread in price between what the farmer receives and what the ultimate consumer pays is less than it is in any other commodity produced by the farmer. Surely this is something worth considering when we are figuring on our methods of marketing wheat.

Further, I want to point out that the fluctuation in price is less violent on those commodities in which there is dealing in "futures" than it is in commodities which, from their nature, render "future" dealings impossible.

And the explanation is very simple. When wheat is delivered to a local elevator or local commission merchant in the month of October, the purchaser makes a sale for future delivery. It is perhaps sold to an exporter, the exporter again sells for future delivery. These men are therefore carrying relatively no risk. It is a straight transaction in which they take a small profit because the risk involved is small. That risk is much less because we have "future" markets, and the producer and consumer reap the benefits. "Future" markets were abolished in Germany at one time, but it lead to greater spreads in price between consumer and producer and the "future" markets were restored.

Future Sales

We hear a certain argument constantly put forward against future sales. We have heard the statement that the grain crop of Western Canada is sold four or five times over every year and that this constant selling lowers the price. Well, I remember when I was a boy on the farm, we sold a litter of pigs just after they were weaned. A neighbor of ours bought them and fed them until they weighed about 100 pounds each. Then he found he was going to be short of feed and he sold them to an uncle of mine. Uncle fed them until they weighed about 200 pounds. He sold them to a drover who took them down to the market in the city

of Toronto and found a buyer there who was taking a load over to Buffalo. He sold them to the man and they finally reached the slaughter houses in Buffalo. Does any man think for a moment that the price of hogs was lowered because they were sold three or four times over? The idea is absurd! Yet we are supposed to assume that this happens in the case of wheat. Let us apply the same principle to the man who is handling wheat. He bought the wheat in October and paid cash for it. In order to prevent loss he "hedges" that purchase. That is, he sells that day an equivalent volume of wheat for delivery, say, two months later in December, and at the price prevailing for December wheat. Now it may happen that he gets cars sooner than he expected and the wheat may arrive in the terminal market in November, not December. When it arrives he sells his wheat at the price prevailing in the market on that day for cash and buys in the "hedge" which he sold for delivery in December. Now, this may be repeated a number of times before the wheat reaches its final market. That is only a simple illustration of what happens. Does any one really believe that this tends to lower the price of grain. If this dealer bought ten thousand bushels of wheat from you, he sold ten thousand for future delivery. He also sold ten thousand cash wheat when he marketed your wheat and he bought in the contract which he made to deliver

in December. The deal was closed, 20,000 bushels of wheat were bought and sold, yet only 10,000 bushels of actual wheat changed hands. These transactions did not affect the price of wheat, for there was a corresponding purchase for every sale. The wheat crop of Western Canada might be sold as often as you care to think about, but remember, every time it is sold, it is bought and when any man tells you the price has been depreciated by the fact that it has been sold several times, it is just as well to remember that it has been bought as often as sold and this has had practically no effect upon ultimate wheat prices. We have heard that figures do not lie. But they do. When I read statements of this kind telling of wheat prices being forced down because wheat has changed hands so often, I say to myself, "not only do figures and statistics lie, but sometimes they are caught in the very act."

The Other Evidence

The friends of the wheat board, when they meet the refutation of their own figures, fall back on something else. One witness before the Agricultural committee even argued that it would lower the cost of threshing presumably because it would place the farmer in a position where there would be no need for hurry. On the same basis it is claimed it would enable the farmer to get his fall work done to better advantage and, finally, it is argued that he

would have the advantage of the help of experienced men in the marketing of his crop. Against all these things is the fact that the farmer would lose control of his own grain. He trusts blindly to the conduct of others in a business in which he cannot see the work done. If a farmer sells one carload through a commission house and is not satisfied with his treatment the remedy is at hand—he can sell the next time through some other firm. Besides, when he handles his own wheat the deal is closed. He gets his money. He knows where he stands.

The wheat board at best is an autocracy. True, a benevolent autocracy is at times an admirable thing. We might all be better under a despot, but who wants to take the risk? We have grown up under conditions where the individual has some say in the shaping of his destiny. Even the Premier in this country is elected and must appeal to the people. In the control of your wheat crop there is more power than in any other position in Canada. Is it wise to abrogate your sovereign rights in the control of your own commodity to a committee of men appointed by the government? Would any other organization of producers consider such a proposition? Surely not, for the farmers the risk is too great—the promise of success too ephemeral, the conception too visionary to appeal to the thinking man. And besides, there are no facts to verify the claim of those who say that it would help the farmer to get a higher price for his wheat.

Additional copies of this booklet may be obtained direct from the Publishers for twenty-five cents each, or fifteen dollars per hundred.